

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

CADILLAC HOUSING COMMISSION

Financial Statements

December 31, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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The management of the Cadillac Housing Authority (PHA) offers this narrative overview and analysis of its audited financial statements for year ended December 31, 2004. The goal is for the reader to better understand the Authority's financial activities and its overall financial position and to show whether revenue covered current year expenses and the extent to which the Authority has invested its capital assets. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

#### **FINANCIAL HIGHLIGHTS:**

- The assets of the PHA exceed its liabilities as of December 31, 2004 by \$2,869,975 (Net Assets).
- The PHA's investment in Capital Assets-net of related debt as of December 31, 2004 was \$2,274,984.42.
- The PHA's total revenue for the calendar year end December 31, 2004 was \$804,956.
- The PHA's total expenses for the calendar year end December 31, 2004 was \$767,326. Therefore, the PHA's total combined revenue exceeds its total combined expenses by \$37,630.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS:**

The following financial statements are included in this report:

- *Statement of Net Assets* - reports the Authority's current financial resources; its cash and other current assets; its current and non-current liabilities and comparing those two elements, the resulting net assets of the PHA. A comparison between this year and the preceding year is also provided.
- *Statement of Revenue and Expenses* - reports the PHA's various revenue and expenses and provides a comparison between this year and the preceding year.

#### **ANALYSIS OF FINANCIAL STATEMENTS:**

##### **STATEMENT OF NET ASSETS**

	2004	2003	Net Change
<b><i>Assets</i></b>			
	\$	\$	\$
Current Assets	751,206.66	693,879.17	57,327.49
Capital Assets-net of accumulated depreciation	\$ 2,274,984.42	\$ 2,275,830.14	\$ (845.72)
	\$	\$	\$
<b><i>Total Assets</i></b>	3,026,191.08	2,969,709.31	56,481.77

CADILLAC HOUSING COMMISSION  
 CADILLAC, MICHIGAN  
 MANAGEMENT DISCUSSION AND ANALYSIS  
 FISCAL YEAR ENDING DECEMBER 31, 2004

**ANALYSIS OF FINANCIAL STATEMENTS - Continued:**

**STATEMENT OF NET  
 ASSETS**

	2004	2003	Net Change
<i><b>Liabilities</b></i>			
Current Liabilities	\$ 156,215.80	\$ 137,364.00	\$ 18,851.80
<i><b>Total Liabilities</b></i>	\$ 156,215.80	\$ 137,364.00	\$ 18,851.80
<i><b>Net Assets</b></i>			
Invested in Capital Assets	\$ 2,274,984.42	\$ 2,275,830.14	\$ (845.72)
Unrestricted Net Assets	\$ 594,990.86	\$ 556,515.17	\$ 38,475.69
<i><b>Total Net Assets</b></i>	\$ 2,869,975.28	\$ 2,832,345.31	\$ 37,629.97
<i><b>Total Liabilities and Net Assets</b></i>	\$ 3,026,191.08	\$ 2,969,709.31	\$ 56,481.77

The increase in current assets is due to excess of revenues over expenses and an increase in outstanding Tenant Account Receivables. The Tenant Account Receivables increased by \$5,122 due to one family unit. This problem will be addressed in the next fiscal year.

There was a small decrease in Capital Assets due to the combination of \$177,918 in depreciation expense and the reclassification of Capital Fund 2001 totaling \$152,665 and the use of operating funds for building improvements of \$27,390.

The increase in current liabilities is largely due to the deferred revenues associated with a Capital Fund draw of \$16,123 for a vehicle purchase in the coming months.

**ANALYSIS OF STATEMENT OF REVENUE AND EXPENSES  
PRIOR AND CURRENT FISCAL YEAR:**

	<b>2004</b>	<b>2003</b>	<b>Net Change</b>
<b><i>Revenues</i></b>			
	\$	\$	\$
Operating Revenues	358,273.34	329,527.94	28,745.40
Operating Grants and Contributions	\$ 237,950.00	\$ 226,454.00	\$ 11,496.00
Capital Grants	\$ 193,495.03	\$ 119,798.57	\$ 73,696.46
	\$	\$	\$
<b><i>Total Program Revenues</i></b>	<b>789,718.37</b>	<b>675,780.51</b>	<b>113,937.86</b>
<b><i>General Revenues</i></b>			
Investments and Other Income	\$ 15,237.96	\$ 23,895.55	\$ (8,657.59)
	\$	\$	\$
<b><i>Total Revenues</i></b>	<b>804,956.33</b>	<b>699,676.06</b>	<b>105,280.27</b>
<b><i>Expenses</i></b>			
	\$	\$	\$
Administration	168,824.00	170,704.00	(1,880.00)
	\$	\$	\$
Tenant Services	5,274.00	6,018.00	(744.00)
	\$	\$	\$
Utilities	96,101.00	86,211.00	9,890.00
	\$	\$	\$
Ordinary maintenance	202,098.00	213,921.00	(11,823.00)
	\$	\$	\$
General Expenses	47,675.00	46,401.00	1,274.00
	\$	\$	\$
Depreciation	177,918.00	188,195.00	(10,277.00)
Section 8 Housing	\$	\$	\$
Choice Vouchers	69,436.36	75,082.00	(5,645.64)
	\$	\$	\$
<b><i>Total Expenses</i></b>	<b>767,326.36</b>	<b>786,532.00</b>	<b>(19,205.64)</b>
	\$	\$	\$
<b><i>Change In Net Assets</i></b>	<b>37,629.97</b>	<b>(86,855.94)</b>	<b>124,485.91</b>

There was an increase in funds received from Housing and Urban Development (HUD) for operations and capital asset acquisitions and improvements. The increase in HUD operating funds received while holding operating expenses in line with prior year contributed to the excess of operating revenue over expenses at current year-end.

**CAPITAL ASSETS:**

The PHA reviews current investments on a routine basis to make sure Certificates of Deposit and Money Market accounts are invested at the best rates available and with maturity dates insure the HA has flexibility when and if funds are needed for current operations without incurring penalties.

**SUMMARY OF MANAGEMENT POLICIES AFFECTING RESIDENTS:**

There are two management policies that are affecting or could potentially affect a portion of the elderly and/or disabled population that are worthy of mentioning. In fiscal year 2003 the Board of Commissioners applied for and received from HUD an "elderly only" designation for one of its properties - Kirtland Terrace. This policy changed the eligibility requirements for Kirtland Terrace to make eligible only people who are "elderly" or "near elderly" by age. No longer can a person qualify for Kirtland based on a disability while being under the "near elderly" age minimum.

Secondly, during the 2004 fiscal year, Cadillac Housing Commission began the process of researching the feasibility of establishing a "smoke-free" building status that would apply to apartments as well as common areas of Kirtland Terrace. If adopted, no new residents would be allowed to smoke anywhere in the building, including their apartments. Existing residents who smoke may be allowed to be grand fathered to some degree, although research on this issue has not yet begun. The rationale for this consideration is based on providing a healthier and safer environment for residents and to reduce costs of maintaining the building.

Finally, discussion began between the Executive Director and the Board of Commissioners regarding the benefits of the establishment of a 501c3 non-profit corporation, which could broaden and expand the services provided to the community.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT:**

The financial report is designed to provide a general overview of the PHA's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Cadillac Housing Commission, 111 Simons Street, Cadillac, Michigan, 49601.

***John C. DiPiero, P.C.***

Certified Public Accountant

P. O. Box 378  
Hemlock, Michigan 48626  
Tel / Fax (989) 642-2092

Board of Commissioners  
Cadillac Housing Commission  
111 S. Simon Street  
Cadillac, Michigan 49601

### **Independent Auditor's Report**

I have audited the financial statements listed in the Table of Contents of the Sample Housing Commission as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of October 1, 2002. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sample Housing Commission as of December 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.



The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 12, 2005 on my consideration of the Sample Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Certified Public Accountant

September 12, 2005

CADILLAC HOUSING COMMISSION  
Statement of Net Assets  
December 31, 2004

ASSETS

C-3042

CURRENT ASSETS

Cash & Cash Equivalents	\$	267,636
Accounts Receivable		6,903
Investments		474,624
Prepaid Expenses		<u>3,444</u>

Total Current Assets	\$	752,607
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NON CURRENT ASSETS

Land	\$	106,563
Buildings		2,228,328
Furniture, Equipment- Dwellings		178,782
Furniture, Equipment- Administrative		195,897
Leasehold Improvements		3,107,869
Accumulated Depreciation		<u>(3,542,455)</u>

Total Non Current Assets		<u>2,274,984</u>
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<u>TOTAL ASSETS</u>	\$	<u>3,027,591</u>
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CADILLAC HOUSING COMMISSION  
Statement of Net Assets  
December 31, 2004

**LIABILITIES**

**C-3042**

**CURRENT LIABILITIES**

Bank Overdraft	\$ 1,701	
Accounts Payable	5,446	
Accrued Wages & Payroll Taxes	13,687	
Accounts Payable- HUD	9,583	
Accounts Payable- Other Government	51,683	
Compensated Absences	8,432	
Tenants Security Deposit	15,458	
Deferred Revenue	<u>17,900</u>	
<u>Total Current Liabilities</u>		\$ 123,890

**NONCURRENT LIABILITIES**

Compensated Absences	<u>24,691</u>	
<u>Total Liabilities</u>		\$ <u>148,581</u>

**Net Assets:**

Investment in Fixed Assets		
net of Related Debt	\$ 2,274,984	
Unrestricted Net Assets	<u>604,026</u>	
<u>Total Net Assets</u>		<u>2,879,010</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

CADILLAC HOUSING COMMISSION  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended December 31, 2004

<u>OPERATING REVENUE</u>	<u>Business Type Activities</u>
Tenant Rental Revenue	\$ 335,954
Tenant Revenue- Other	22,319
HUD Grants	431,445
Interest Income	6,618
Other Income	<u>7,041</u>
 <u>Total Operating Revenue</u>	 \$ 803,377
 <u>OPERATING EXPENSES</u>	
Administrative	\$ 159,788
Tenant Services	5,274
Utility Expenses	96,101
Ordinary Maintenance	202,098
General Expenses	<u>47,675</u>
 <u>Total Operating Expenses</u>	 <u>510,936</u>
 <u>Operating Income (Loss)</u>	 \$ 292,441
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Housing Assistance Payments	\$ (69,436)
Gain on Sale of Fixed Assets	1,578
Depreciation Expenses	<u>(177,918)</u>
 <u>Total Nonoperating (Expenses)</u>	 <u>(245,776)</u>
 <u>Change in Net Assets</u>	 \$ 46,665
 Total Net Assets- Beginning	 <u>2,832,345</u>
 Total Net Assets- Ending	 <u>\$ 2,879,010</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

CADILLAC HOUSING COMMISSION  
Statement of Cash Flows  
For the Year Ended December 31, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 353,151
Payments to Suppliers	(406,120)
Payments to Employees	(159,649)
HUD Grants	431,445
Other Receipts (Payments)	<u>15,237</u>

Net Cash Provided (Used) by Operating Activities	\$ <u>234,064</u>
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CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Reclassification of Cash Equivalents	\$ (474,624)
Purchases of Capital Assets	<u>(177,072)</u>

Total Financing Activities	\$ <u>(651,696)</u>
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Net Increase (Decrease) in Cash and Cash Equivalents	\$ (417,632)
Cash Balance- Beginning of Year	<u>685,268</u>
Cash Balance- End of Year	\$ <u>267,636</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 46,665
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	177,918
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(4,604)
Investments	55,085
Prepaid Expenses	69
Changes in Liabilities Increase (Decrease):	
Cash Overdraft	(1,701)
Accounts Payable	(53,323)
Accrued Liabilities	(8,648)
Accounts Payable-Other Governments	9,583
Accrued Compensated Absences	(89)
Security Deposits	(133)
Deferred Revenue	<u>13,242</u>
Net Cash Provided by Operating Activities	\$ <u>234,064</u>

The Accompanying Notes are an Integral part of the Financial Statements

CADILLAC HOUSING COMMISSION  
Notes to Financial Statements  
December 31, 2004

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

Cadillac Housing Commission, Cadillac, Michigan, (Commission) was created by ordinance of the city of Cadillac. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 103-001	Low rent program	125 units
MI 103	Section 8 Vouchers	25 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

## Notes to Financial Statements- continued

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major and non major funds.

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with the Governmental Accounting Standards (GASB) pronouncements.

### Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Notes to Financial Statements- continued

**Assets, Liabilities, and Net Assets-**

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 29,696
Petty Cash	460
Cash Equivalents, (below)	<u>237,480</u>
Financial Statement Total	<u>\$ 267,636</u>



Notes to Financial Statements- continued

Investments:

Money Market	\$ 168,602
Certificates of Deposit	543,502
Cash Equivalents, (above)	<u>(237,480)</u>
Financial Statement Total	\$ <u>474,624</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 29,696	\$	\$	\$ 29,696	\$ 29,696
Petty Cash	460			460	460
Money Markets	<u>237,480</u>			<u>237,480</u>	<u>237,480</u>
Total Cash	\$ <u>474,624</u>	\$	\$	\$ <u>474,624</u>	\$ <u>474,624</u>
Investments:					
Money Market A/C's	168,602	\$	\$	\$ 168,602	\$ 168,602
C/D's	<u>306,022</u>			<u>306,022</u>	<u>306,022</u>
Total Invest	\$ <u>474,624</u>	\$	\$	\$ <u>474,624</u>	\$ <u>474,624</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Prepaid Expenses

Prepaid expenses consists of unexpired insurance premiums.

Notes to Financial Statements- continued

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 106,563	\$	\$	\$ 106,563
Buildings	2,228,328			2,228,328
Furniture & Equipment-Dwellings	178,782			178,782
Furniture & Equipment-Admin	194,370	1,527		195,897
Leasehold Improvements	<u>2,932,324</u>	<u>175,545</u>		<u>3,107,869</u>
	\$ 5,640,367	\$ 177,072	\$	\$ 5,817,439
Less Accumulated Depreciation	<u>3,364,537</u>	<u>177,918</u>		<u>3,542,455</u>
	\$ <u>2,275,830</u>	\$ <u>(846)</u>	\$	\$ <u>2,274,984</u>

Note 5: Pension Plan

The Cadillac Housing Commission contributes to the Municipal Employees Retirement System (MERS), a multi-employer defined benefit pension plan administered by the State of Michigan, through the City of Cadillac. Details concerning the plan are available in the annual report of MERS. This plan covers all regular, full-time employees of the Housing Commission. Employees do not contribute to this plan.

Other statistical and historical data required by GASB Statement No. 5 is not included herein because data for the Housing Commission is not available from MERS.

Note 6: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 7: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Notes to Financial Statements- continued

Note 8: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 7,875,800
General Liability	1,000,000
Errors & Omissions	1,000,000
Automobile	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

## Cadillac Housing Commission

31-Dec-04

MI060

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	<b>ASSETS:</b>				
	<b>CURRENT ASSETS:</b>				
	Cash:				
111	Cash - unrestricted	201,496	34,559	-	236,055
112	Cash - restricted - modernization and developmen	-			-
113	Cash - other restricted	16,123			16,123
114	Cash - tenant security deposits	15,458			15,458
100	Total cash	233,077	34,559	-	267,636
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				-
122	Accounts receivable - HUD other projects	-	-	-	-
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous				-
126	Accounts receivable- tenants - dwelling rents	10,883			10,883
126.1	Allowance for doubtful accounts - dwelling rents	(3,980)			(3,980)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- curren				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable				-
120	Total receivables, net of allowances for doubtful account	6,903	-	-	6,903
	Current investments				-
131	Investments - unrestricted	474,624			474,624
132	Investments - restricted				-
142	Prepaid expenses and other assets	3,444			3,444
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	300	-	16,123	16,423
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	718,348	34,559	16,123	769,030
	<b>NONCURRENT ASSETS:</b>				
	Fixed assets:				
161	Land	106,563			106,563
162	Buildings	2,228,328			2,228,328
163	Furniture, equipment & machinery - dwellings	178,782	-	-	178,782
164	Furniture, equipment & machinery - administrati	191,022	4,875	-	195,897
165	Leasehold improvements	2,851,111		256,758	3,107,869
166	Accumulated depreciation	(3,537,580)	(4,875)	-	(3,542,455)
160	Total fixed assets, net of accumulated depreciator	2,018,226	-	256,758	2,274,984
171	Notes and mortgages receivable - non-curren				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	2,018,226	-	256,758	2,274,984

190	<b>TOTAL ASSETS</b>	2,736,574	34,559	272,881	3,044,014

	<b>LIABILITIES AND EQUITY:</b>				
	<b>LIABILITIES:</b>				
	<b>CURRENT LIABILITIES</b>				
311	Bank overdraft	1,701			1,701
312	Accounts payable ≤ 90 days	5,446	-		5,446
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	13,687	-		13,687
322	Accrued compensated absences	8,432			8,432
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		9,583		9,583
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	51,683	-	-	51,683
341	Tenant security deposits	15,458			15,458
342	Deferred revenues	1,777	-	16,123	17,900
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	-			-
346	Accrued liabilities - other	-			-
347	Inter-program - due to	16,123	300	-	16,423
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>114,307</b>	<b>9,883</b>	<b>16,123</b>	<b>140,313</b>
	<b>NONCURRENT LIABILITIES:</b>				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	24,691			24,691
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>24,691</b>	<b>-</b>	<b>-</b>	<b>24,691</b>
300	<b>TOTAL LIABILITIES</b>	<b>138,998</b>	<b>9,883</b>	<b>16,123</b>	<b>165,004</b>
	<b>EQUITY:</b>				
501	Investment in general fixed assets				-
	<b>Contributed Capital:</b>				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	2,018,226	-	256,758	2,274,984
	<b>Reserved fund balance:</b>				
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	579,350	24,676		604,026
513	<b>TOTAL EQUITY</b>	<b>2,597,576</b>	<b>24,676</b>	<b>256,758</b>	<b>2,879,010</b>
600	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,736,574</b>	<b>34,559</b>	<b>272,881</b>	<b>3,044,014</b>

**Proof of concept**

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## Cadillac Housing Commission

31-Dec-04

MI060

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	<b>REVENUE:</b>	-	-	-	
703	Net tenant rental revenue	335,954			335,954
704	Tenant revenue - other	22,319			22,319
705	Total tenant revenue	358,273	-	-	358,273
706	HUD PHA grants	156,023	81,927	193,495	431,445
708	Other government grants				-
711	Investment income - unrestricted	6,558	60	-	6,618
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	7,041	-	-	7,041
716	Gain or loss on the sale of fixed assets	1,578			1,578
720	Investment income - restricted				-
700	<b>TOTAL REVENUE</b>	529,473	81,987	193,495	804,955
	<b>EXPENSES:</b>				
	Administrative				
911	Administrative salaries	77,323	10,890	-	88,213
912	Auditing fees	2,450	300		2,750
913	Outside management fees				-
914	Compensated absences	(8,392)			(8,392)
915	Employee benefit contributions- administrative	45,876	943	-	46,819
916	Other operating- administrative	29,833	565	-	30,398
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	5,274			5,274
	Utilities				
931	Water	31,079			31,079
932	Electricity	44,108			44,108
933	Gas	20,914			20,914
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	71,436			71,436
942	Ordinary maintenance and operations - materials & other	21,705		-	21,705
943	Ordinary maintenance and operations - contract costs	66,610		-	66,610
945	Employee benefit contributions- ordinary maintenance	42,347			42,347
	Protective services				
951	Protective services - labor				-

[illegible]



CADILLAC HOUSING COMMISSION  
Status of Prior Audit Findings  
December 31, 2004

The prior audit of the Cadillac Housing Commission for the period ended December 31, 2003, did not contain any audit findings.

CADILLAC HOUSING COMMISSION  
Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements in Accordance with  
*Governmental Auditing Standards*  
December 31, 2004

I have audited the financial statements of Cadillac Housing Commission as of and for the year ended December 31, 2004, and have issued my report dated September 12, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether Cadillac Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion. However, the results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs: 04-1, 04-2, and 04-3.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Cadillac Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Cadillac Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

September 12, 2005

CADILLAC HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
December 31, 2004

1) Summary of Auditor's Results:

Programs:

	Major Program	Non Major Program
Low income Public Housing		X
Housing Choice Voucher Program		X
Capital Projects Funds		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
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Reportable condition(s) noted	_____ Yes	_____ X _____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
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Reportable condition(s) noted	_____ X _____ Yes	_____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

Name of Federal Program	Major Program	Questioned Costs	Audit Finding Number
Low Rent Program	No	None	04-1, 04-2
Housing Choice Voucher Program	No	None	04-3

CADILLAC HOUSING COMMISSION  
Schedule of Findings, Recommendations and Replies  
December 31, 2004

The following finding of the Cadillac Housing Commission, for the year ended December 31, 2004, were discussed with the Executive Director, Mr. Daniel Peterson, in an exit interview conducted September 12, 2005.

Finding 4-1: Tenant Accounting Discrepancies- Low Rent Program

Seven tenant files were reviewed and the following discrepancies were noted:

Four files lacked proper income verification

Recommendation

The Commission is required to obtain third party income verification for all sources and document the same in the tenant file. Failure to obtain third party verifications can result in miscalculated tenant rent and a possible loss of income.

In addition to the lack of income verification as stated above, the Commission was using an incorrect imputed interest rate in the certification software; although none of the files tested were affected by the incorrect rate, other files may have been impacted by the rate used.

I recommend the Commission obtain the written authorizations with the next recertification process, and correct the universal imputed interest rate in the certification software program.

Reply

The Commission has taken the following actions:

- 1) Contacted the software program personnel and adjusted the imputed interest rate to 2%. We will continue to use this rate unless we are advised otherwise by the HUD field office.
- 2) Schedule a full day of training on the EIV system with HUD field office staff person for October 5, 2005. This will provide needed assistance on the effective use of 3 party income verifications.
- 3) The Housing Commissioner's current computer equipment does not allow easy access to the EIV system. 2005 capital funds will be used with the next 90-120 days to upgrade computers, which will allow us to completely integrate the EIV system.

#### Finding 4-2: Excessive Accounts Receivable

Average tenant accounts receivable based on units in possession at December 31, 2003, were \$ 46; average balance as of December 31, 2004, was \$ 87. HUD prescribes \$ 15 per unit average as acceptable.

#### Recommendation

The accounts receivable trial balance contain several large tenant balances which inflated the total accounts receivable, however, even after eliminating those accounts, the accounts receivable have increased over the prior year; the average outstanding balance last year was already three times the prescribed level per HUD.

I recommend the Commission review its collection process and follow the policies in place concerning tenant accounts.

#### Reply

We agree.

Finding 4-3: Tenant Accounting Discrepancies- Section 8 Housing Choice Program

Six tenant files were tested and the following discrepancies were noted:

- Two files lacked third party income verification
- Two files had incomplete inspection forms

Recommendation

The Commission is required to obtain third party income verification for all sources and document the same in the tenant file. Failure to obtain third party verifications can result in miscalculated tenant rent and a possible loss of income.

Annual inspections are required and corrections are required within 30 days by the landlords.

I recommend the Commission review all files for proper third party verification and completed inspection forms. In the future management should test a percentage of files annually to insure compliance.

Reply

Computer upgrades scheduled to be completed within 90-120 days will allow access to the EIV system. Additional on-site staff training scheduled for October 5, 2005 by the HUD field office will assist us in 3 party verification processes. Once training and equipment changes are completed, we will review files thru both the annual and interim re-certifications.